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SIPDIS

SENSITIVE

STATE FOR EB/IFD, WHA/EPSC, INR/IAA, DRL/IL, AND WHA/CEN
TREASURY FOR DDOUGLASS
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GUATEMALA FOR COMATT AND AGATT

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SUBJECT: HONDURAN "PACTO POLITICO" SPONSORED BY UNDP
UNRAVELS IN PUBLIC

11. (SBU) On September 5, EconChief attended the very public disintegration of the 2005 Political Pact during its planned rollout. The document, based on a similar Pact from 2001, was intended to serve as a blueprint for the political transition following the November 27, 2005 presidential elections. The Pact, an initiative sponsored by the United Nations Development Program (UNDP) and the Interamerican Development Bank (IDB), has been under negotiation for five months, and was to have been signed by all five political parties and presented to the public on September 5. One-by-one, at least three of the parties balked, leaving the document in limbo for now.

12. (SBU) One of the five parties, the small, reformist Party for Innovation and National Unity (PINU), had previously indicated on Friday, September 2 that they did not intend to sign the document. They claimed that the Pact only served to legitimize the two major political parties (the Nationalist and Liberal Parties, respectively), while serving as no effective constraint on those parties' post-election behavior. According to PINU, the 2001 Pact was largely ignored by the leading parties, and PINU expected the current Pact would be as well.

13. (SBU) However, the remaining four parties were invited to sign the final document in a public ceremony on Friday September 5 (Labor Day). Starting two and a half hours late, the rollout ceremony opened with an impromptu press conference on the dais by members of the Democratic Unification Party (UD), a small, leftist, anti-globalization party with five seats in Congress and single-digit voter support. The UD speakers lambasted the current Pact, saying it fails to address a number of fundamental concerns of the voting public. Among them, the UD listed: calling for price reductions for energy; lower utility prices; prohibiting privatization of water, telephone, and other services; cracking down on corruption; price freezes on basic foodstuffs; increased agricultural production; increased credit to the rural sector; protection of small and medium businesses from the competition that will come under CAFTA, and passage of the pending legislation on freedom of information. The UD denounced the Pact as something imposed by the major parties, and declared they would not in fact sign the document.

14. (SBU) Shortly afterwards, National Party presidential candidate Porfirio "Pepe" Lobo entered and addressed the dwindling crowd from the podium, declaring that there would be no signing ceremony, that talks had failed, and that while the National Party was prepared to move forward, the Liberal Party (the largest opposition party) had scuttled the negotiations. According to Lobo, the Liberals had appeared on the morning of September 5 with a new list of demands, including reducing energy costs and passing the freedom of information bill.

15. (SBU) Liberal Party presidential candidate Manuel Zelaya did not address the crowd, but EconChief spoke with campaign director Hugo Noe Pino. Noe confirmed that Zelaya had demanded that reference to the freedom of information bill be put back in the Pact (he claimed it had been removed at the last minute.) He also confirmed the Liberal Party was calling for lower energy prices. Asked how a political party could promise lower prices when global events are driving the energy markets, Noe replied that wringing corruption out of the system would generate important savings. A price reduction of just 8 to 10 lempiras (40 to 55 U.S. cents) per gallon would bring Honduran prices in line with regional averages, he said, restoring Honduran ability to compete without significantly compromising the GOH budget. "We will not break with fiscal discipline," Noe assured EconChief. (Note: This is consistent with what the Liberal Party told the International Monetary Fund during its semi-annual visit this week. End note.)

16. (SBU) According to Noe, restarting negotiations on the

Pact could take several days, and it is being suggested that Catholic Church Cardinal Oscar Rodriguez will need to intervene personally to bring all five parties back to the table. (Comment: Cardinal Rodriguez is a politically influential player in Honduran and regional politics, has long been a key fighter for both debt relief and anti-corruption efforts, and was rumored to be on the short-list for Pope. End comment.)

17. (SBU) Though the Pact was to have been a multilateral effort involving donors and the Honduran political parties, several present at the ceremony complained privately to EconChief that they had been shut out of the process. Canadian AID Representative Reid Sirrs, currently the Chairman of the G-16 coordinating group for donors in Honduras, noted that while he had been repeatedly assured the process was an open one, he has neither seen a draft of the document nor been invited to the preparatory meetings. World Bank ResRep Adrian Fozzard voiced a similar complaint, saying that he had not seen the draft document and was unsure what it contained. For our part, Post was approached by the UNDP several months ago with their general proposal to undertake a new Pact, but we too have seen no drafts of the document and await its release.

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